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Research Report

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Wirtschaftliche Untersuchungen,
Berichte und Sachverhalte



IW-Report 29/18

IW Financial Expert Survey

Third Quarter 2018
Markus Demary

Köln, Cologne, July 10, 2018

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JEL Classification:

G12 – Asset pricing

G17 – Financial forecasting

Abstract

The experts of the IW Financial Expert Survey predict a steeper yield curve with a larger increase in long-term than in short-term interest rates by the end of 2018. Moreover, the average forecasts indicate higher stock market indices, a mild depreciation of the Euro vis-à-vis the US-Dollar, but a larger drop in oil prices by the end of the fourth quarter of 2018. However, despite the expectation of higher interest rates, the short-term interest rate is predicted to remain in negative territory. The 3-month Euribor is, on average, expected to reach -0.31 percent at the end of the fourth quarter of 2018, while the yield on German government bonds with 10-year maturity is expected to reach 0.75 percent by then. Stock markets are, on average, expected to increase by 6.8 percent (Stoxx 50) and 9.4 percent (DAX 30) until the end of the year 2018. During that same period, the experts predict a mild depreciation of the Euro by 0.89 percent vis-à-vis the US Dollar, while oil prices are expected to drop by 9.0 percent.

The expectation of an increase in the long rate and a slight increase in the short rate, together with the expected delayed monetary tightening of the ECB, hint at a financial market outlook characterised by a cautious approach to monetary normalisation. In this cautious approach, the ECB lets the market determine the first increases in long-term interest rates before it stops intervening at the long end of the yield curve, while keeping the short end of the yield curve lower. This cautious approach to monetary policy normalization is reflected in the projection of the yield curve. Moreover, the experts expect that the development of the Euro and the development of oil prices as well as the development of the stock market will support the ECB's cautious approach to monetary normalization instead of forcing a faster exit from low interest rates.

Each quarter we ask the participants alternating questions on current topics. At this time, we were interested in their opinion on the proposed Euro area reforms. The majority of the surveyed experts is of the opinion that a European monetary fund is needed in the Euro area. Moreover, a majority of the same size thinks that macroprudential policies are worthwhile for stabilizing the Euro area. In addition to that, the same majority sees the need for insolvency procedures for states. A small number of experts only sees a European finance minister and the introduction of sovereign-bond-backed securities as worthwhile. These proposals have the highest number of experts who think of them as counter-productive.

The evaluation of the forecasting performance of the latest forecasts yielded the result that Deutsche Bank performed best in predicting trends in the long-term ranking, which covers all forecasts from March 2015 to March 2018. The experts of Deutsche Bank also performed best in the short-term ranking, which covers the surveys from December 2017 and March 2018 for the 3-months ahead prediction and the survey for December 2017 for the 6-month forecasts. When it comes to point prediction, in the long-term evaluation of the period running from March 2015 to March 2018, the experts of National-Bank performed best in predicting all indicators, while the Commerzbank experts produced the most precise point forecasts for all indicators for the short-term evaluation period.

1 The IW Financial Expert Survey

Since the second quarter of 2017, the IW has been undertaking the former forecasting test of the Center for European Economic Research (ZEW). The ZEW has been conducting the survey of financial market experts since the beginning of 2001. The former ZEW forecasting test is now called the IW Financial Expert Survey, which is and will be conducted and published on a quarterly basis.

The participating forecasters of financial companies submit their forecast to the IW on a quarterly basis. The IW in turn calculates mean predictions and forecasting intervals and evaluates the participants' performance in making trend forecasts and point forecasts. The indicators used for the IW Financial Expert Survey are the 3-month Euribor (called "short rate"), the yield of German government bonds with 10-year maturity (called "long rate"), the Stoxx 50 Europe Index, the DAX 30 Index, the EUR-USD exchange rate, and the oil price (brent). Moreover, the IW surveys alternating questions on the current stance of monetary policy or on macroeconomic trends that are relevant for financial markets.

2 Current forecasts

This section contains an analysis of the current forecasts for the end of the third and the end of the fourth quarter of 2018. The individual point forecasts, which the experts submitted, were aggregated to a mean forecast. Moreover, trend forecasts were calculated from the individual point forecast and the most recent data points.

2.1 Interest rates

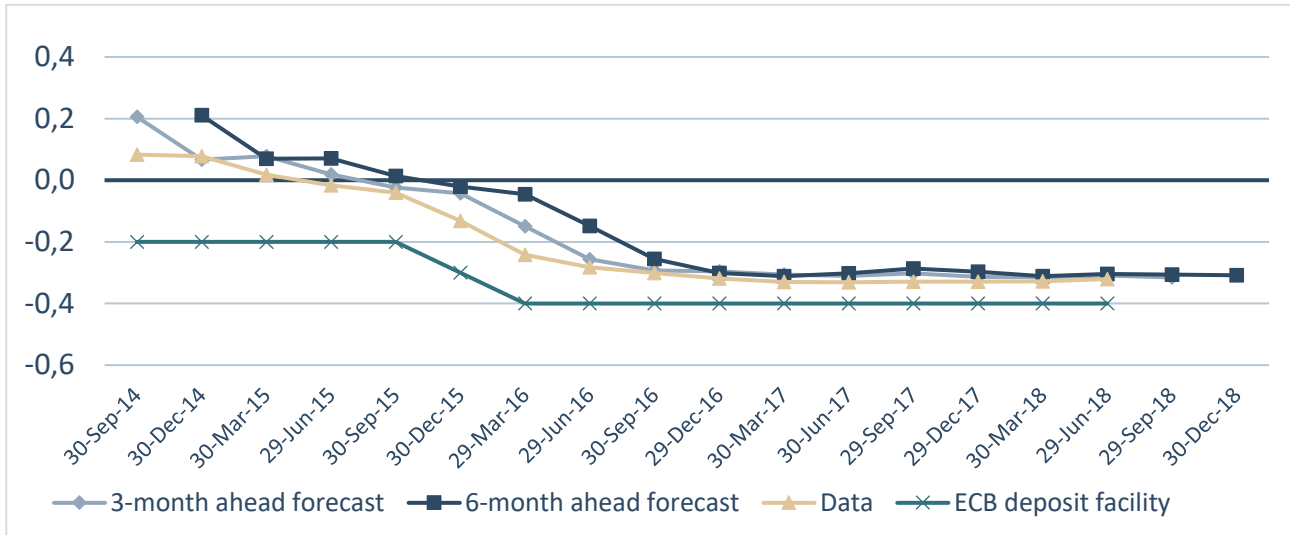
During the period we surveyed the experts, i.e. from the beginning of the sample period in the third quarter of 2014 to the end of the third quarter of 2018, the short-term interest rate was characterized by a slow downward trend from 0.08 percent at the end of the third quarter of 2014 to -0.32 percent at the end of the second quarter of 2017. The short rate remained from the end of the first quarter of 2017 to the end of the first quarter of 2018 at that lower floor of -0.33 percent. It only rose marginally to -0.32 percent by the end of the second quarter of 2018 (figure 2-1).

The figure 2-1 contains the data at the last day of each quarter together with the mean prediction of the experts, i.e. the average over all individual point forecasts. While the mean prediction over-predicted the short-rate for most of the time, i.e. forecasts were too high; the over-prediction became smaller over time, especially during the time, where the short-rate converged to the value -0.33 percent. One reason for the over-prediction could be that the experts experienced for the first time a low and even negative interest rate environment, which challenged forecasting. The experts forecasting models might have contained a zero lower bound on interest rates, first, which was then lowered cautiously step-by-step, when interest rates proved to become negative. After the short-rate reached its floor of -0.33 percent, the over-prediction became smaller over time, probably because the experts' lower bound on interest rates did not

need additional downward adjustments, since the interest rate has remained at that floor since then. The interest rate forecasts of the short-rate seem to be very precise now. The mean forecasts for the end of the third quarter of 2018 and the end of the fourth quarter 2018 are -0.33 percent and 0.32 percent with a standard deviation of 0.04 percentage points each (table 2-1).

Figure 2-1: Point forecasts: short-term interest rate

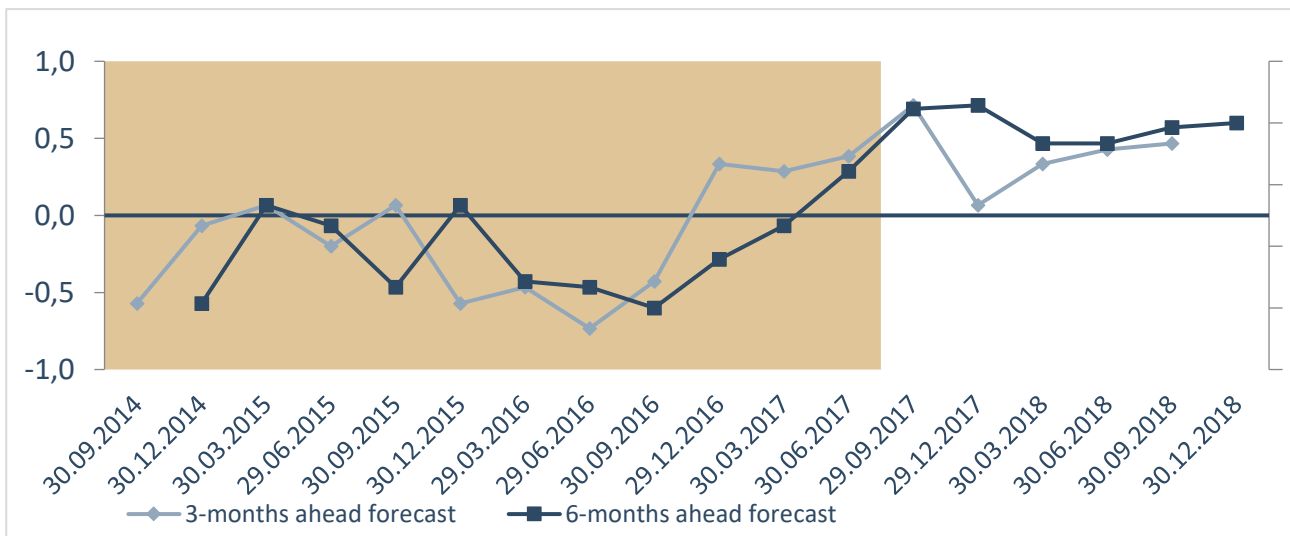
3-Month Euribor, in percent



Source: Bloomberg, IW Financial Expert Survey

Figure 2-2: Trend forecasts: short-term interest rates

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.

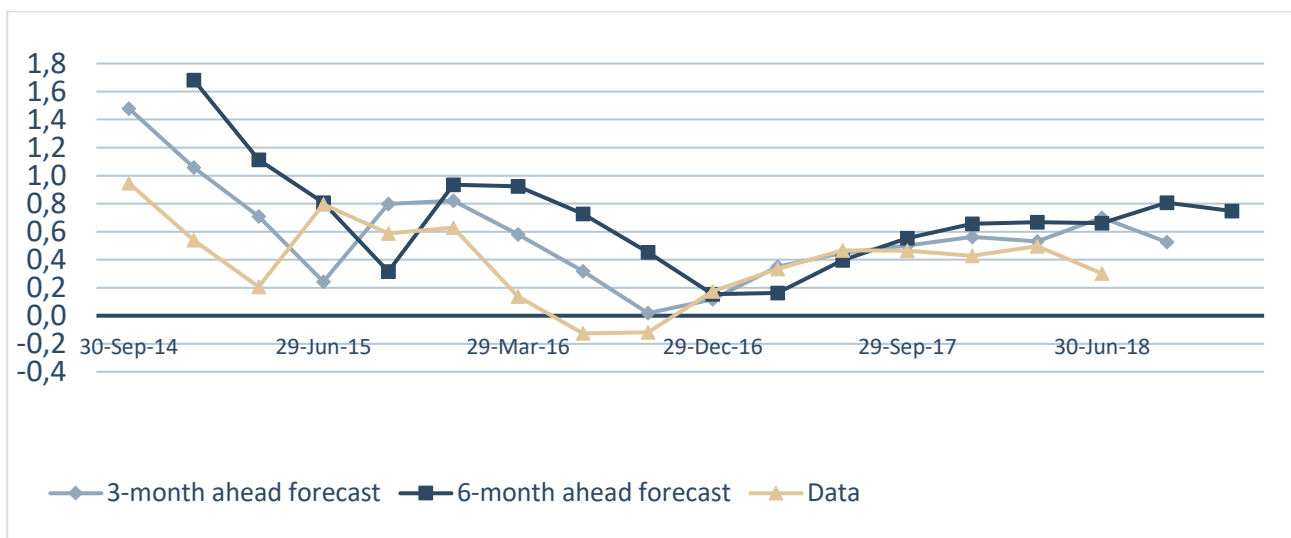


Source: Bloomberg, IW Financial Expert Survey

From the trend forecasts can be seen that trend predictions of the short-rate in an environment of negative interest rates has been more precise compared to point predictions (figure 2-2). The figure contains the trend forecasts for the next 3 and 6 months as so-called diffusion indices. These were calculated as the number of experts who predict a positive trend minus the number of experts who predict a negative trend divided by the number of forecasters. The diffusion index can fluctuate between -1 and 1, with -1 indicating that all experts agree on a negative trend, 1 indicating that all experts agree on a positive trend and 0 indicating that half of the experts expect a positive trend, while the other half expects a negative trend. Predicting no change is not possible here because the data has more digits than the predictions that the experts report. From the figure can be seen that most experts expected a declining short-rate during the time the short rate actually declined, but also that most experts expected a much earlier trend reversal. The expectation of a trend reversal does not show up in the mean forecasts of figure 2-1, because it averages out due to some experts expecting interest rates to decline further. While the short-rate has stopped declining in the third quarter of 2017, the experts predicted a trend reversal for the end of the last quarter in 2016. Although the mean prediction for the end of the second quarter of 2018 and the end of the third quarter of 2018 indicates the short rate to stay at its value of -0.32 percent, most experts are in favour of increasing interest rates. Most experts expect the short-term interest rate to increase by the end of the third quarter and by the end of the fourth quarter of 2018.

Figure 2-3: Long-term interest rate

Yield on German government bonds with a maturity of 10 years, in percent



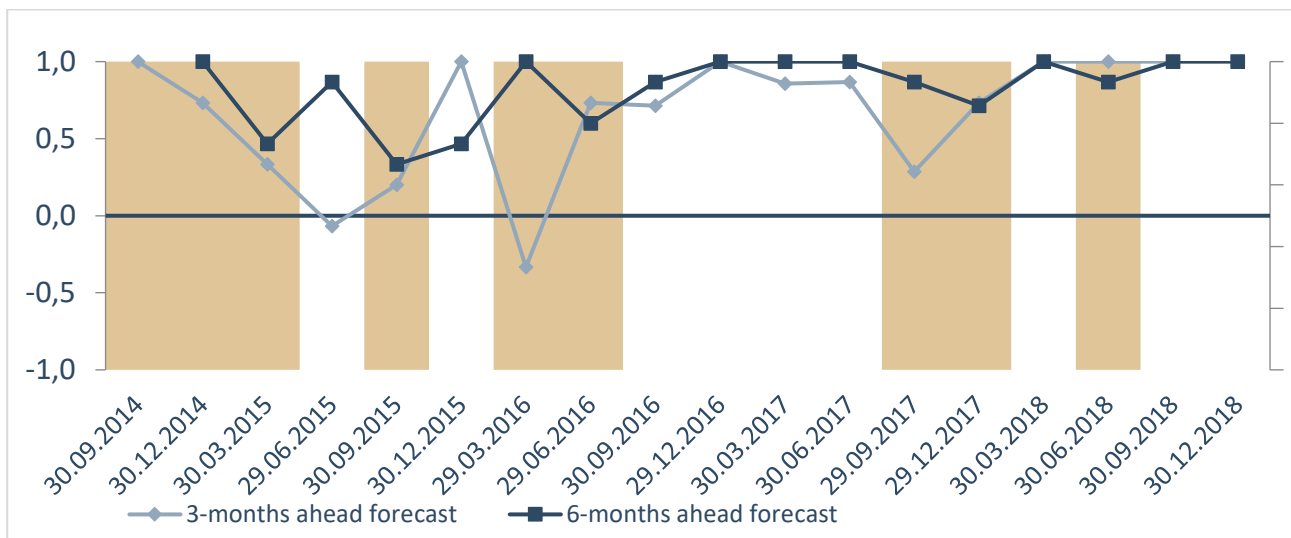
Source: Bloomberg, IW Financial Expert Survey

The long-term interest rate declined from 0.95 percent at the end of the third quarter of 2014 to -0.13 percent at the end of the second quarter in 2016. It then recovered to 0.5 percent at the end of the first quarter of 2018 and then dropped to 0.30 by the end of the second quarter of 2018 (figure 2-3).

The figure 2-3 also shows that forecasting the long rate in a low interest rate environment is challenging. The experts over-predicted on average the two declines of the long rate in the period between the third quarter of 2014 and the last quarter of 2016, while forecasts improved with the beginning of the year 2017, i.e. that forecast errors have become smaller and the over-prediction of the data has vanished. Experts expect on average the long-rate to increase to 0.53 and 0.75 percent by the end of the third and the fourth quarter of 2018 with standard deviations of 0.07 and 0.18 percentage points (table 2-1).

Figure 2-4: Trend forecasts: long-term interest rates

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



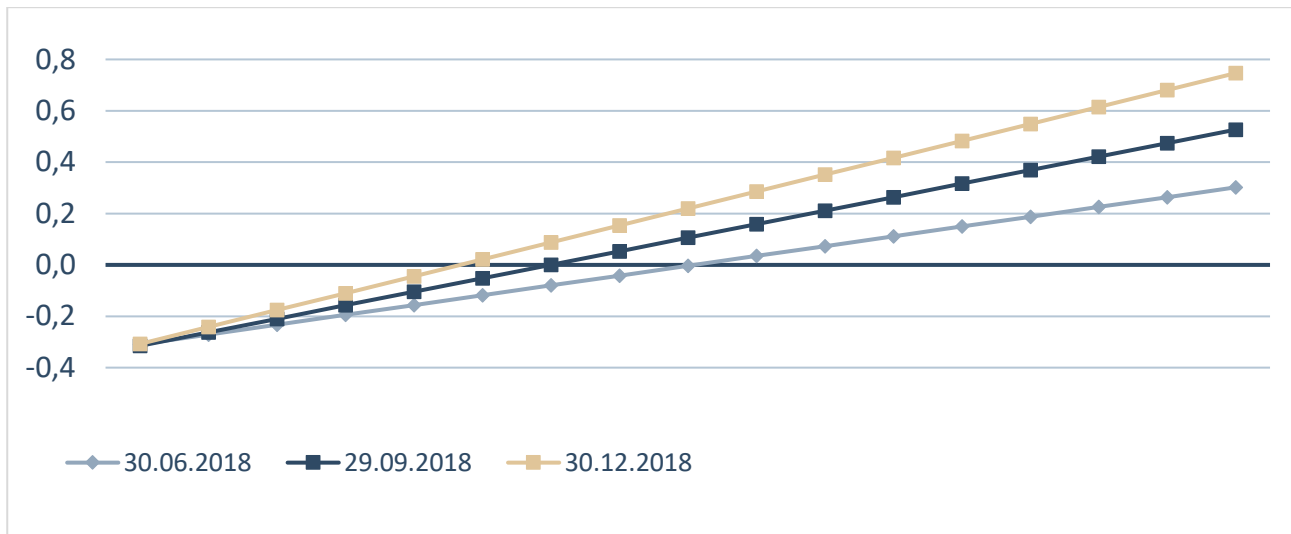
Source: Bloomberg, IW Financial Expert Survey

The majority of experts was most of the time optimistic when it came to predicting the trend in the long-rate, while the pessimists were in the minority (figure 2-4). During the periods of declining yields, most experts expected a positive trend for the next 3 and 6 months. While most experts erred on the direction of the long-rate during the periods of declining yields, they were very accurate during the periods of increasing yields. For the end of the third quarter of 2018 and the end of the fourth quarter of 2018, all experts expect increasing long-term interest rates.

Figure 2-5 contains the prediction of the yield curve, for which yields between 3-month maturity and 10-year maturity were interpolated linearly. From the figure can be seen, that the experts predict the yield curve to become steeper. While they predict only a minor change at the short end of the yield curve, they predict the long end to increase more sharply to up to 0.75 percent by the end of the fourth quarter of 2018. The expectation of a steeper yield curve is consistent with the expectation of normalizing interest rates.

Figure 2-5: Estimated yield curve

Interest rates from 3-month maturity to 10-year maturity, linearly interpolated



Source: Bloomberg, IW Financial Expert Survey

Table 2-1: Summary statistics: interest rates

End of survey: March 29 2018, 14 respondents for the short rate and the long rate

	Short rate	Long rate	Short rate	Long rate
July 29 2018 value	-0.32	0.30	-0.32	0.30
	3-month-ahead forecast		6-month-ahead forecast	
Mean Forecast	-0.32	0.53	-0.31	0.75
Change in perc. points	0.01	0.22	0.01	0.44
Standard deviation	0.04	0.07	0.04	0.18
Lowest forecast	-0.40	0.40	-0.40	0.50
Highest forecast	-0.20	0.70	-0.20	1.25

Source: Bloomberg, IW Financial Expert Survey

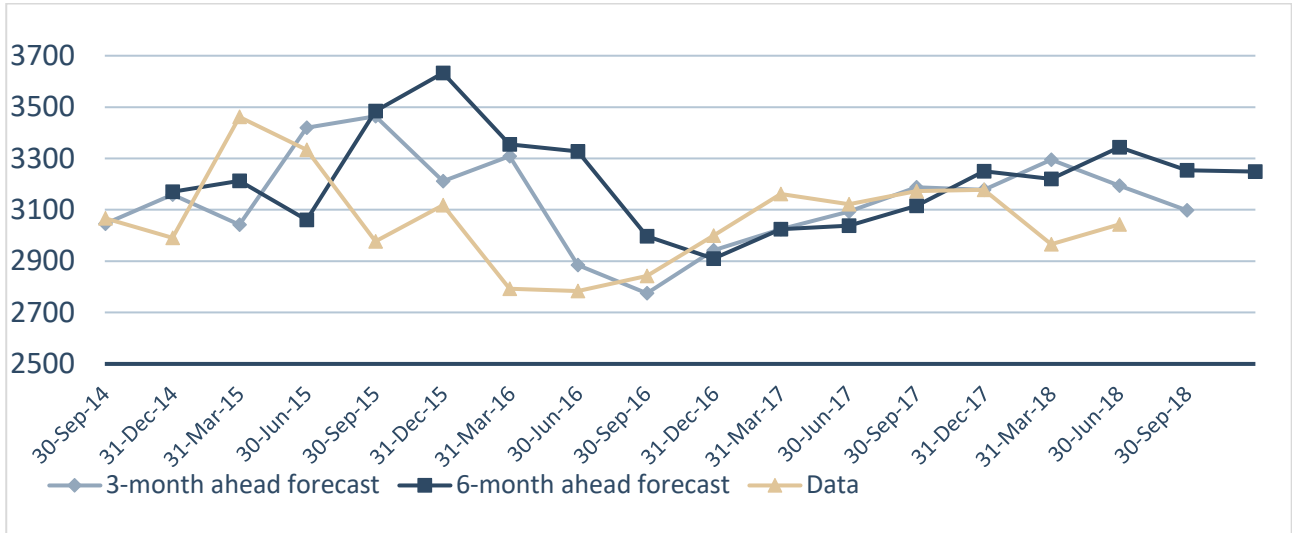
2.2 Stock Market Performance

The Stoxx index trended upward from the end of the third quarter of 2014 to the first quarter of 2015, after which it declined until the end of the first quarter of 2016. After that, it increased until the end the first quarter of 2017. Since then, the Stoxx index moved sideways with a drop

at the end of the first quarter of 2018. It recovered by the end of the second quarter 2018 (figure 2-6).

Figure 2-6: Point forecasts: Stoxx 50 Europe

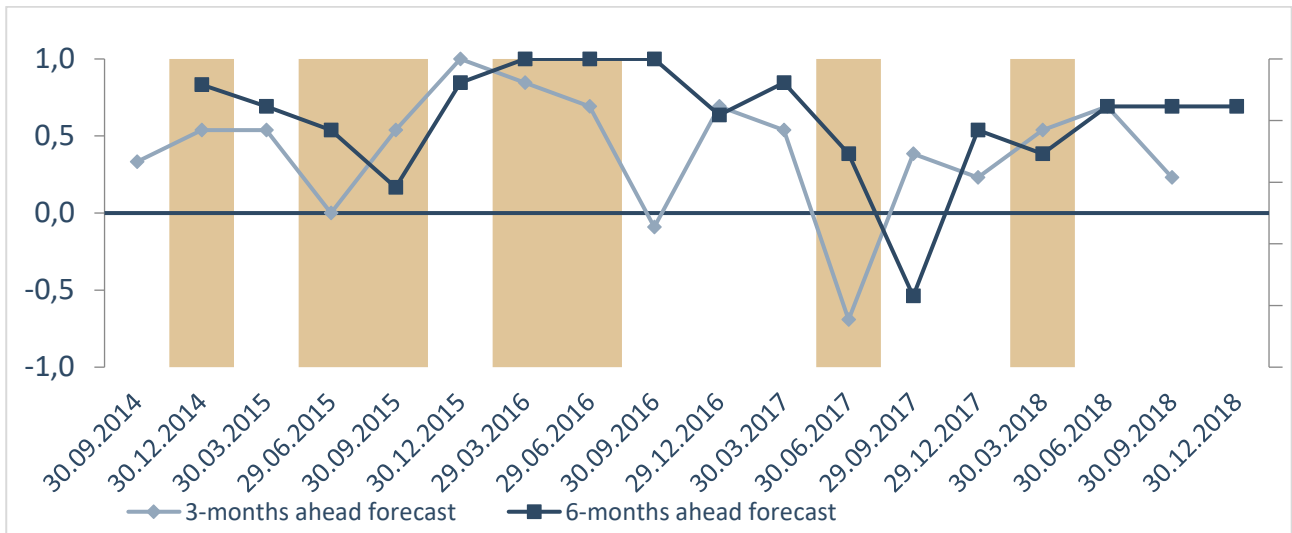
Index



Source: Bloomberg, IW Financial Expert Survey

Figure 2-7: Trend forecasts: Stoxx 50 Europe

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



Source: Bloomberg, IW Financial Expert Survey

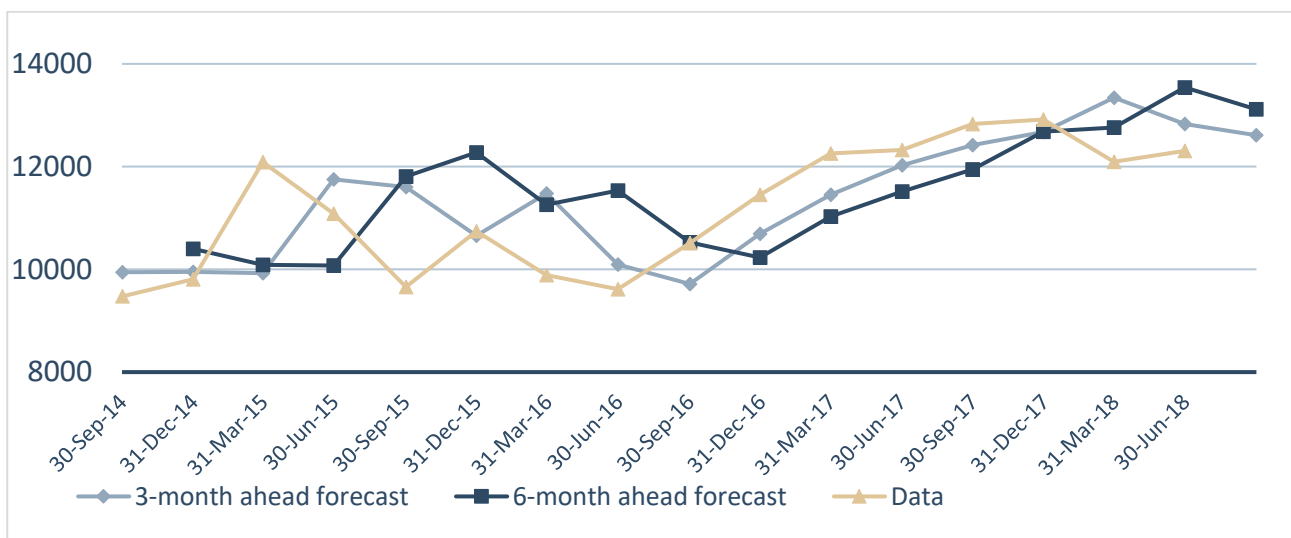
In contrast to their interest rate forecast, the experts' stock market forecasts tended less towards over-prediction. There is, in fact, only one period between 2015 and 2017, in which the

experts over-predict the Stoxx 50 in the years 2015 and 2016. However, their forecasts became more precise in the year 2017 with smaller forecast errors. For the first and the second quarter of 2018, the experts started to over-predict the growth on the Stoxx index (figure 2-6).

The analysis of the experts' trend forecasts reveals that they were optimistic during the periods of declining stock prices, but they lost their confidence in 2017. However, the experts regained their confidence in rising stock prices in 2018. For the end of the second and third quarters of 2018, the majority of experts expect a rising Stoxx 50 index as can be seen from figure 2-7. On average, the experts predict the index to increase from 3.043 points to 3.098 points at the end of the third quarter of 2018 and to 3.249 points at the end of the fourth quarter of 2018, which would correspond to increases of 1.8 percent and 6.8 percent (Table 2-2).

Figure 2-8: DAX 30 Index

Index



Source: Bloomberg, IW Financial Expert Survey

The DAX index increased from the end of the third quarter of 2014 to the first quarter of 2015, after which it dropped until the end of the second quarter of 2016. After that, the DAX experienced a long upward trend until the end of the year 2017. In the first quarter of 2018, the DAX has dropped, but it recovered by the end of the second quarter of 2018 (figure 2-8).

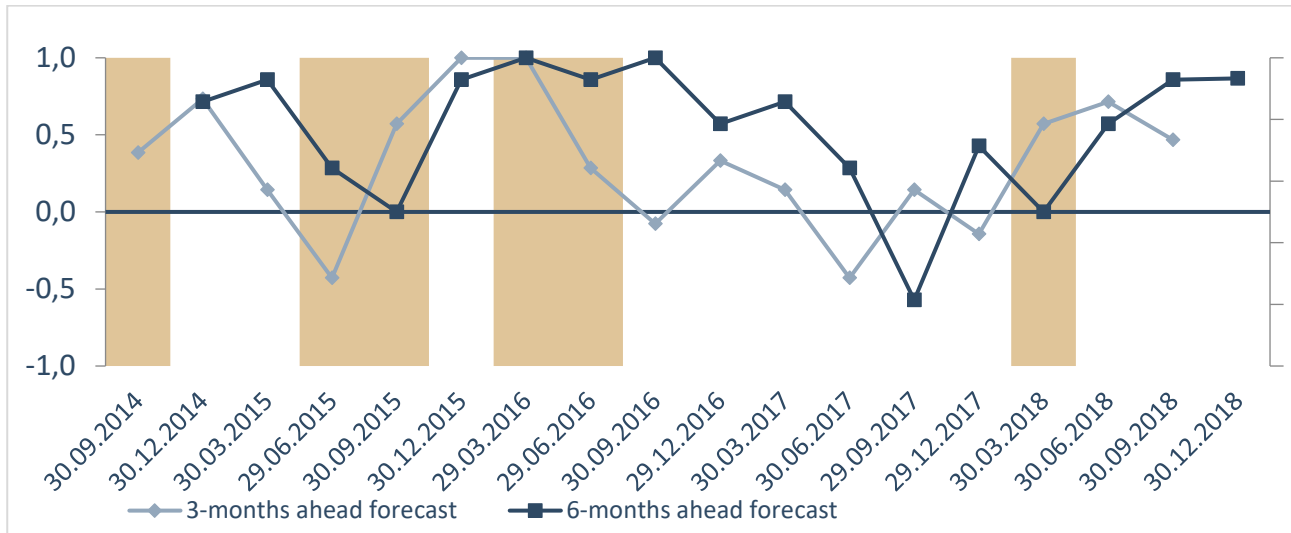
In 2015 and in the first half of 2016 experts over-predicted the growth of the DAX on average. However, forecast errors became smaller during the positive trend growth, which the DAX experienced since then. However, the experts under-predicted the positive trend growth (figure 2-8). At the end of the first as well as the second quarter of 2018, the experts over-predicted the trend growth again.

The over-prediction of the DAX also shows up in the trend forecasts. Here, most of the experts expected increasing stock prices in times, in which the DAX declined, e.g. in 2016. After that,

more and more experts became pessimistic and under-predicted the growth of the DAX, e.g in the year 2017 (figure 2-9). The larger number of pessimist is one reason, why the mean forecast was below the DAX index during the time of the positive trend growth in 2016 and 2017.

Figure 2-9: Trend forecasts: DAX 30

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



Source: Bloomberg, IW Financial Expert Survey

Table 2-2: Summary statistics: stock market indices

End of survey: Dec 29 2017, 13 respondents for the Stoxx 50 and 14 respondents for the DAX 30

	Stoxx 50	DAX 30	Stoxx 50	DAX 30
March 29 2018 value	3,043	12,306	3,043	12,306
	3-month-ahead forecast		6-month-ahead forecast	
Mean Forecast	3,098	12,613	3,249	13,457
Change in percent	1.8	2.5	6.8	9.4
Standard deviation	192	592	200	555
Lowest forecast	2,800	11,400	2,950	12,300
Highest forecast	3,630	13,400	3.750	14,500

Source: Bloomberg, IW Financial Expert Survey

Confidence has returned, however. For the third and fourth quarter of 2018, the majority of experts expect the DAX to increase (figure 2-9). On average, they predict the DAX to rise from

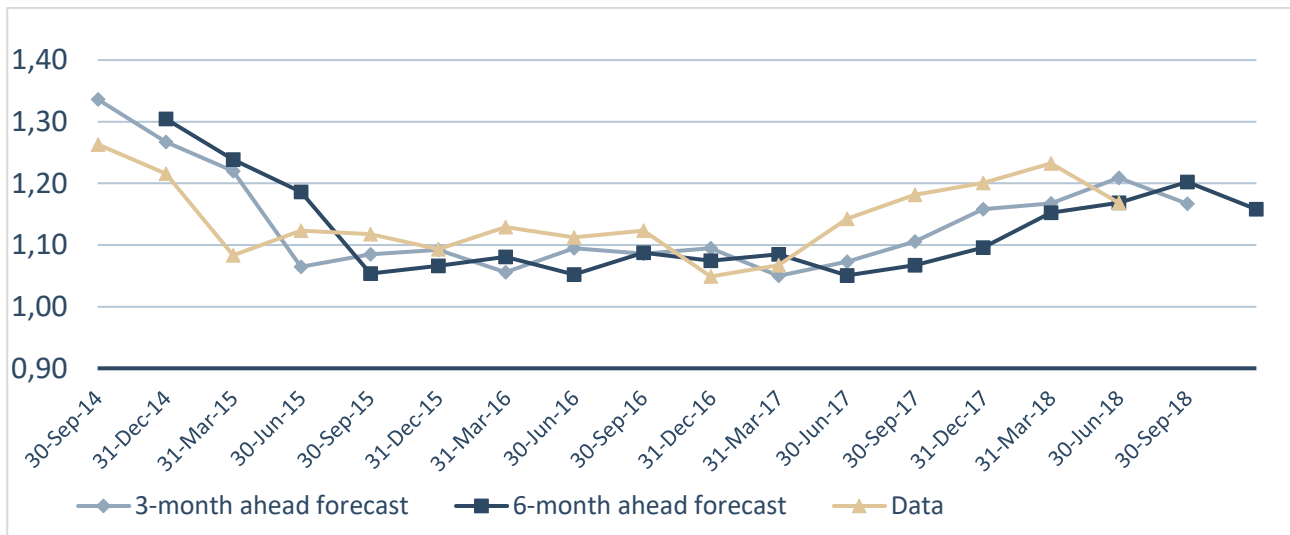
12.306 points at the end of the second quarter of 2018 to 12.613 at the end of the third quarter of 2018 and 13.457 at the end of the fourth quarter of 2018, which corresponds to growth rates of 2.5 percent and 9.4 percent.

2.3 Foreign Exchange

The EUR-USD exchange rate decline from 1.263 EUR per one USD at the end of the third quarter of 2014 to 1.083 Euro per one USD at the end of the first quarter of 2015. It then moved more or less sideways until the end of the third quarter of 2016. The EUR-USD exchange rate dropped at the end of the year 2016, while it increase from 1.124 EUR per one USD to 1.232 EUR per one USD since then. It stayed more or less at that level at the end of the second quarter of 2018 (figure 2-10).

Figure 2-10: Point forecasts: EUR-USD exchange rate

US Dollars per 1 Euro



Source: Bloomberg, IW Financial Expert Survey

The experts over-predicted the exchange rate between the end of 2014 and the end of the first half of 2015. In fact, the exchange rate declined faster than expected by the experts. In the years 2015 to 2017, when the exchange rate moved more or less sideways, the forecasts converged. However, from the end of the second half of 2017 on the exchange rate increased faster than predicted by the experts leading to an under-prediction of the mean forecasts (figure 2-10).

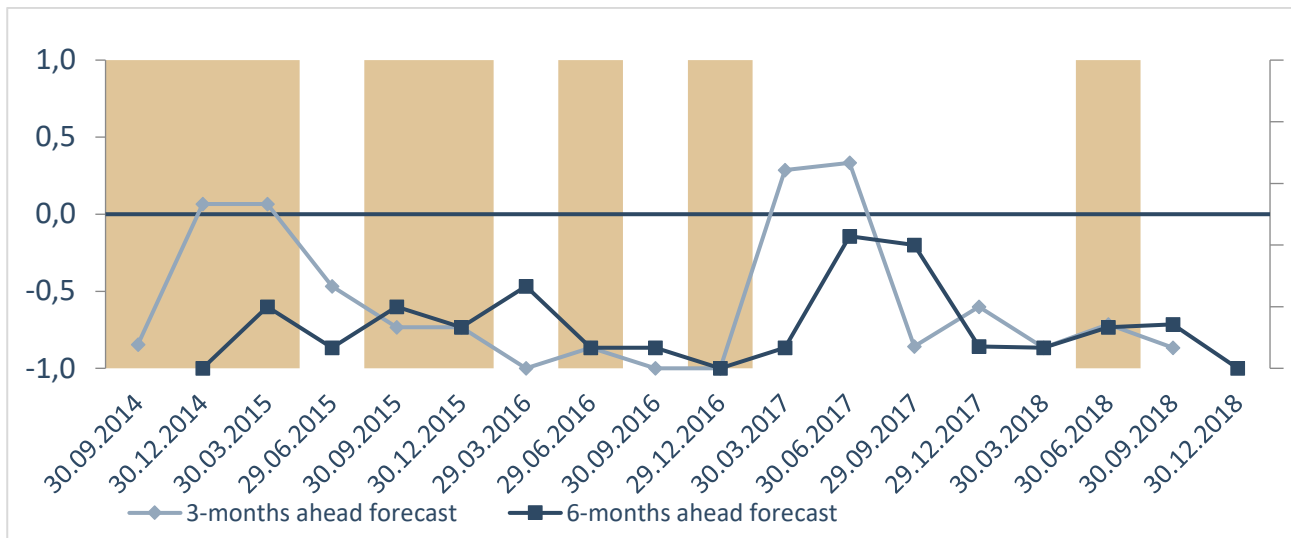
From the trend forecasts can be seen that the majority of experts expected a declining exchange rate for most of the time. Also for the third quarter and the fourth quarter of 2018, the majority of experts expects the exchange rate to decline (figure 2-11).

On average, the experts expect the exchange rate to decline from 1.1684 EUR per one USD at the end of the second quarter of 2018 to 1.167 EUR per one USD at the end of the third quarter

of 2018 and to 1.158 EUR per one USD at the end of the fourth quarter of 2018, which corresponds to a decline by -0.89 percent by the end of the year (table 2-3).

Figure 2-11: Trend forecasts: EUR-USD exchange rate

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



Source: Bloomberg, IW Financial Expert Survey

Table 2-3: Summary statistics: foreign exchange

End of survey: Dec 29 2017, 15 respondents, in US Dollars per 1 Euro

	EUR-USD	EUR-USD
March 29 2018 value	1.168	1.168
	3-month-ahead forecast	6-month-ahead forecast
Mean Forecast	1.167	1.158
Change in percent	-0.13	-0.89
Standard deviation	0.025	0.031
Lowest forecast	1.140	1.100
Highest forecast	1.240	1.200

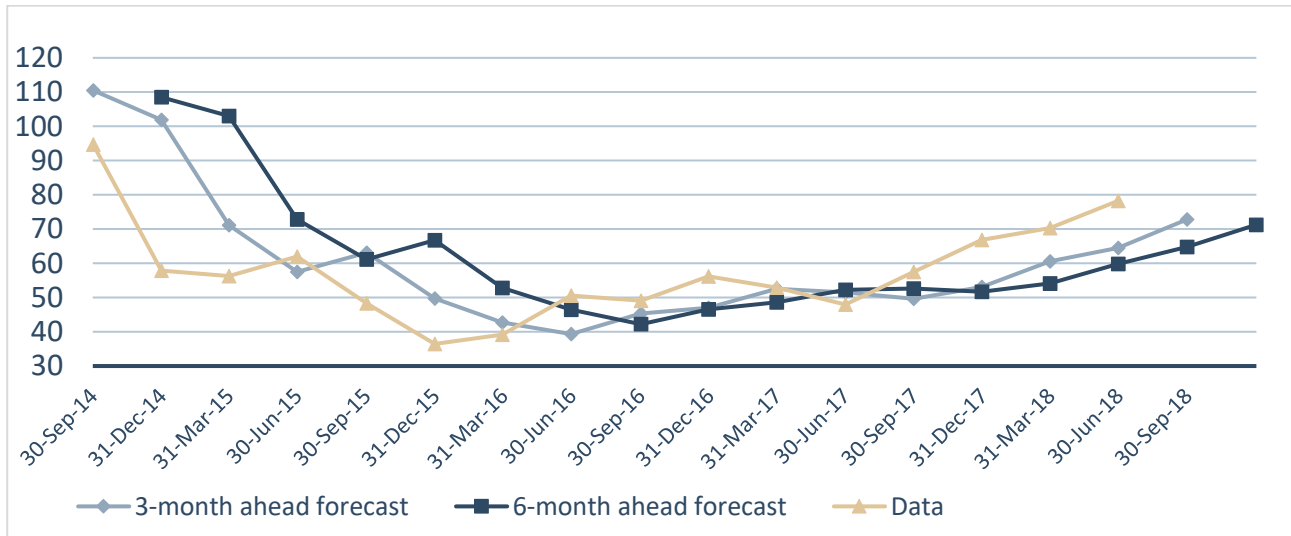
Source: Bloomberg, IW Financial Expert Survey

2.4 Oil Prices

The oil price dropped from 94.7 USD per barrel at the end of the third quarter of 2014 to 94.7 USD per barrel at the end of the year 2015. Since then the oil price experienced a long upward movement to currently 78.3 USD per barrel (figure 2-12).

Figure 2-12: Oil prices

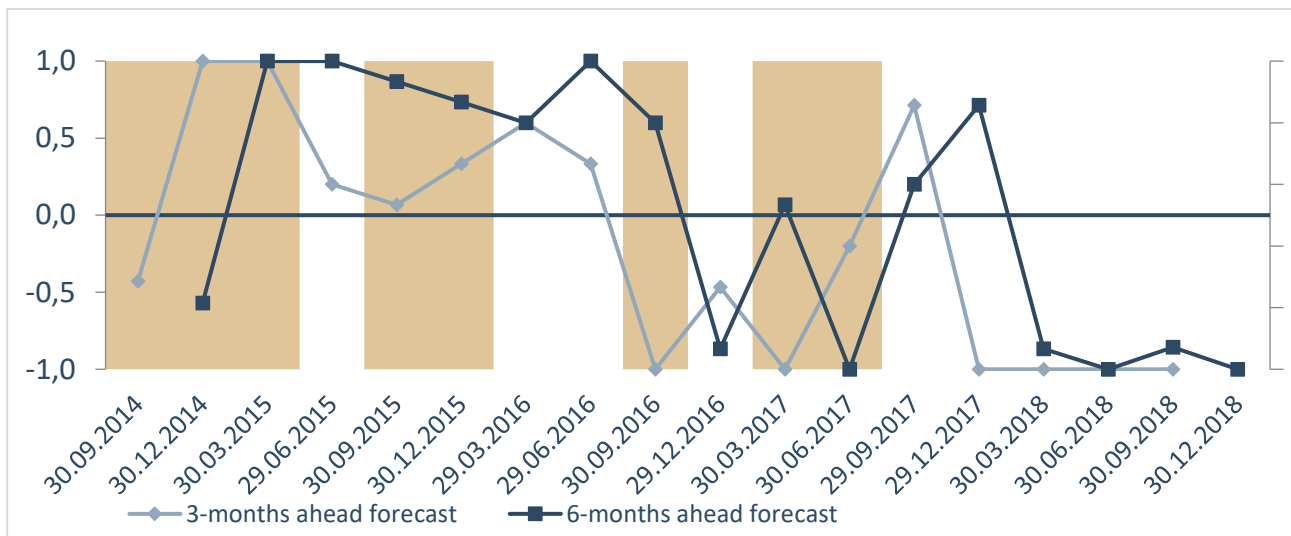
Brent, London, US Dollars per barrel



Source: Bloomberg, IW Financial Expert Survey

Figure 2-13: Trend forecasts: oil prices

Diffusion index: number of respondents with positive trend predictions minus number of respondents with negative trend predictions divided by all respondents, shaded area: periods with a downward trend in the data.



Source: Bloomberg, IW Financial Expert Survey

The forecasters over-predicted oil prices until March 2016, i.e. that oil prices declined faster than predicted by the experts. From the end of the second quarter of 2016 to the end of the third quarter of 2017, expectations converged and tracked the data well since then. However, since the end of the third quarter of 2017 the experts under-predicted oil prices, i.e. oil prices rose faster than predicted by the experts.

While the majority of experts expected rising oil prices from the end of the first quarter of 2015 to the end of the third quarter of 2016, forecasters got pessimistic then. From the end of the year 2016 to the end of the first half of 2017, the majority of experts expected declining oil prices. After, that the majority of forecasters was optimistic for two quarters. For the all quarters of 2018 the majority of experts predicts declining oil prices (figure 2-13).

Experts expect on average that oil prices fall from 78.3 USD per barrel to 72.8 and 71.3 USD per barrel, which corresponds to a declines by 7.0 and 9.0 percent (table 2-4).

Table 2-4: Summary statistics: oil prices

End of survey: March 29 2018, 15 respondents

	Oil prices	Oil prices
March 29 2018 value	78.3	78.3
	3-month-ahead forecast	6-month-ahead forecast
Mean Forecast	72.8	71.3
Change in percent	-7.0	-9.0
Standard deviation	4.1	4.7
Lowest forecast	65.0	64.0
Highest forecast	78.0	77.0

Source: Bloomberg, IW Financial Expert Survey

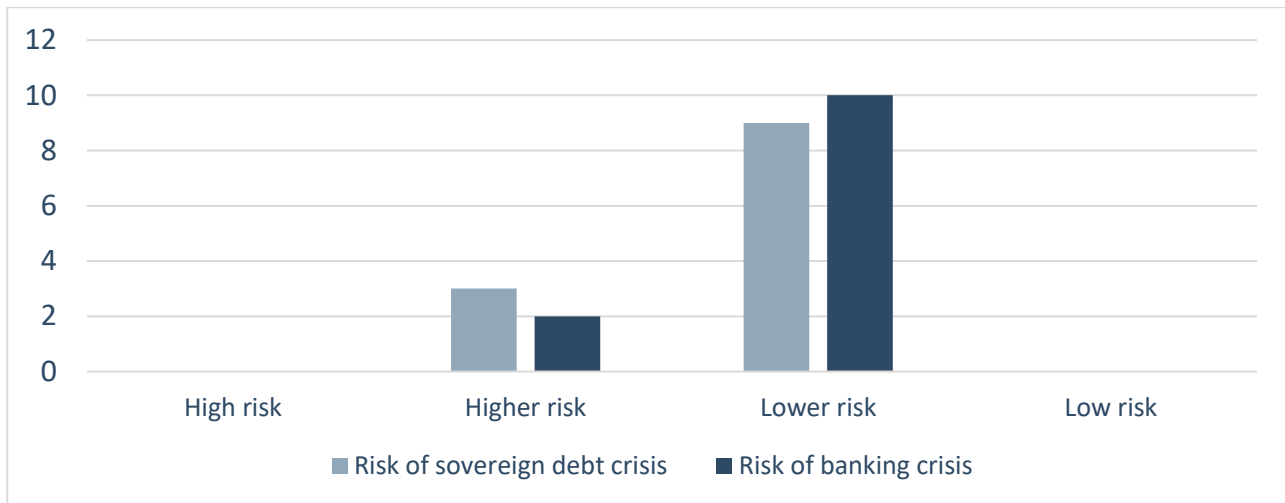
3 Euro Area Reforms

Each quarter we ask the participants alternating questions on current topics. At this time, we were interested in their opinion on the crisis-proneness of the Euro area and their evaluation of proposed Euro area reforms.

Since the Euro area experienced a doom-loop of banking and sovereign debt crises in the past, we first asked the participants on their view of the risk of a new banking crisis and a new sovereign debt crisis in the Euro area. The majority of the experts expect these two risks to be very low at the moment (figure 3-1).

Figure 3-1: Risks of Banking and Sovereign Debt Crises

Number of respondents.

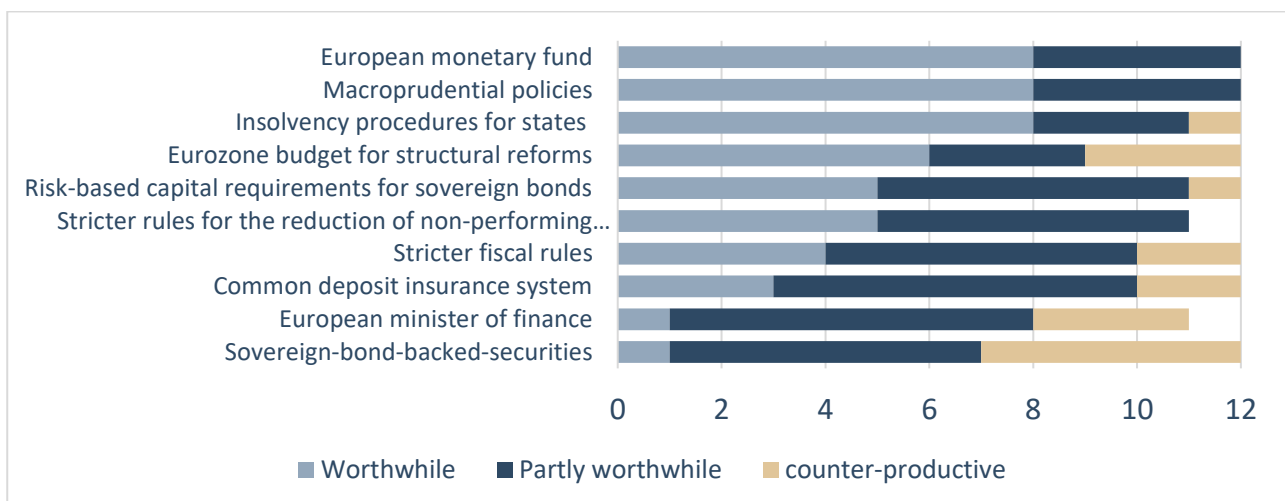


Source: IW Financial Expert Survey

Then we asked the experts on their opinion on the proposed Euro area reforms (figure 3-2). The majority of the surveyed experts are of the opinion that a European monetary fund is needed in the Euro area. Moreover, a majority of the same size thinks that macroprudential policies are worthwhile in stabilizing the Euro area. In addition to that, the same majority sees a need for insolvency procedures for states.

Figure 3-2: Evaluation of Proposed Euro Area Reforms

Number of respondents.



Source: IW Financial Expert Survey

Half of the experts are in favour of a Eurozone budget for structural reforms. Risk-based capital requirements for sovereign bonds and stricter rules of the reduction of non-performing loans

were seen at least in part as worthwhile by the majority of experts. The same holds for a common European deposit insurance system. While only some experts think of it as worthwhile, the majority of experts think of it as in part worthwhile. A small number of experts only sees a European finance minister and the introduction of sovereign-bond-backed securities as worthwhile. However, these proposals have the highest number of experts who think about them as counter-productive.

4 Ranking of the best performing forecasters

This section contains the results of the ranking of the best forecasters.

4.1 Trend Forecasts

In the short-term ranking, which measures the predictive accuracy of the last two 3-month ahead forecasts and the last 6-month ahead forecast, DekaBank and Deutsche Bank had the first place with both having 66.7 percent correct trend forecasts for all six indicators in the survey for the second quarter of 2018. In the current ranking, Deutsche Bank maintained the first place with an accuracy rate of 52.5 percent. Nord/LB is on rank two with an accuracy rate of 55.6 percent in predicting trends correctly, while Helaba is on rank three with an accuracy rate of 50.0 percent.

Table 4-1: The best performing trend forecasters

Forecast evaluation based on the number of precisely predicted trends, in percent

	Surveys from December 2017 and March 2018	Surveys from March 2015 to March 2018	Surveys from June 2014 to March 2018
1	Deutsche Bank	Deutsche Bank	Commerzbank and Hamburger Sparkasse
	62.5 percent	57.3 percent	58.1 percent
2	Nord/LB	DZ Bank	DZ Bank
	55.6 percent	56.2 percent	57.0 percent
3	Helaba	Commerzbank and Hamburger Sparkasse	Deka Bank
	50.0 percent	55.6 percent	56.7 percent

Source: Bloomberg, IW Financial Expert Survey

In the long-term ranking, which covers the last 12 quarters, Commerzbank and DZ Bank reached rank one with a success rate of 57.6 percent for both forecasters in the survey for the second quarter of 2018. DekaBank reached rank two with a success rate of 56.4 percent. UniCredit

reached rank three with a success rate of 56.0 percent. In the current ranking, Deutsche Bank is on rank one with an accuracy rate of 57.3 percent followed by DZ Bank on rank two. Commerzbank and Hamburger Sparkasse share rank three with both having an accuracy rate of 55.6 percent. Starting the long-term ranking in June 2014 would result in rank one for Commerzbank and Hamburger Sparkasse (table 4-1).

Table 4-2: The best performing trend forecasters: single indicators

Forecast evaluation based on Theil's U defined as the root mean squared forecast error of the forecaster divided by the root mean squared error of a random walk forecast, evaluation period: March 2015 to March 2018

	Short rate	Long rate	Stoxx 50	DAX 30	EUR-USD	Oil price
Evaluation period: March 2015 to March 2018						
1	Hamburger Sparkasse	Commerzbank	Hamburger Sparkasse	DekaBank	Deutsche Bank	DZ Bank, Postbank, UniCredit, Weberbank
	79.2	75.0	58.3	70.8	61.1	54.2
2	Deutsche Bank	National-Bank	DekaBank UniCredit	Weberbank	Allianz	Allianz, Deutsche Bank, LBBW National-Bank
	72.2	70.8	54.5	66.7	58.3	50.2
3	Nord/LB	Bayerische Landesbank Nord/LB	Allianz Commerzbank DZ Bank Helaba Weberbank	DZ Bank, Hamburger Sparkasse	DZ Bank Nord/LB	DekaBank, Hamburger Sparkasse, Santander Bank
	70.8	58.3	54.2	58.3	54.2	45.8
	Short rate	Long rate	Stoxx 50	DAX 30	EUR-USD	Oil price
Evaluation period: June 2014 to March 2018						
1	Hamburger Sparkasse	Commerzbank	UniCredit	DekaBank	Allianz Helaba	Weberbank
	87.1 percent	71.0 percent	66.7 percent	74.2 percent	67.7 percent	54.8 percent
2	Bayerische Landesbank DZ Bank	National-Bank	Commerzbank	Weberbank	Bayerische Landesbank Nord/LB	UniCredit
	77.4 percent	61.3 percent	58.1 percent	67.7 percent	58.1 percent	51.7 percent
3	Nord/LB	UniCredit	DekaBank	Santander Bank	6 forecasters	Postbank
	74.2 percent	55.6 percent	55.6 percent	61.3 percent	54.8 percent	51.6 percent

Source: Bloomberg, IW Financial Expert Survey

Hamburger Sparkasse again reached the first rank for forecasting the short-term interest rate with a success rate of 79.2 percent. The best forecaster for the long-term interest rate was again Commerzbank with a success rate of 75.0 percent. Hamburger Sparkasse was the best forecaster for the Stoxx and DekaBank the best forecaster for the DAX. Hamburger Sparkasse had a success rate of 58.3 percent, while Deka predicted 70.8 percent of the trends correctly. Deutsche was the best forecaster of the EUR-USD exchange rate with a success rate of 61.1 percent, while DZ Bank, Postbank, UniCredit and Weberbank had all the highest success rates for forecasting oil prices.

4.2 Point Forecasts

In the short-term ranking of the survey for the second quarter of 2018 Postbank reached the first rank after the second rank in the last quarter. In the current ranking Commerzbank is rank one. The former second rank held DekaBank, while DZ Bank held the third rank. In the current ranking, Santander Bank and National-Bank succeeded on ranks two and three.

In the long-term ranking National-Bank could defend rank one, while Commerzbank moved to rank three from rank two. New on rank two is Nord/LB, which was on rank three in the survey for the second quarter of 2018. Starting the long-term ranking in June 2014 would result in National-Bank on rank 1, Commerzbank on rank 2 and Nord/LB on rank three (table 4-3).

Table 4-3: The best performing point forecasters

Forecast evaluation based on Theil's U defined as the root mean squared forecast error of the forecaster divided by the root mean squared error of a random walk forecast

	Surveys from December 2017 and March 2018	Surveys from March 2015 to March 2018	Surveys from June 2014 to March 2018
1	Commerzbank 1.496	National-Bank 1.024	National-Bank 1.051
2	Santander Bank 1.722	Nord/LB 1.138	Commerzbank 1.154
3	National-Bank 1.727	Commerzbank 1.148	Nord/LB 1.185

Source: Bloomberg, IW Financial Expert Survey

DZ Bank was again best in predicting the short-term interest rate. Its prediction was better than the random walk forecast. Commerzbank was the best in predicting the long-term interest rate

in the last survey, while National-Bank moved to rank one now with predictions that had a lower variance of the forecast errors compared to the random walk forecast. DekaBank was again best in predicting the Stoxx index. Helaba defended rank one in predicting the DAX. DZ Bank was currently best at predicting the EUR-USD exchange rate although its prediction could no beat the random walk forecast. Best at predicting the oil price was again Weberbank. Its forecast was more accurate than the random walk benchmark (table 4-4).

Table 4-4: The best performing point forecasters: single indicators

Forecast evaluation based on Theil's U defined as the root mean squared forecast error of the forecaster divided by the root mean squared error of a random walk forecast

	Short rate	Long rate	Stoxx 50	DAX 30	EUR-USD	Oil price
Evaluation period: March 2015 to March 2018						
1	DZ Bank	National-Bank	DekaBank	Helaba	DZ Bank	Weberbank
	0.804	0.946	1.041	1.012	1.047	0.954
2	Hamburger Sparkasse	Commerzbank	Commerzbank	DekaBank	UniCredit	Allianz
	0.809	1.051	1.386	1.056	1.111	1.013
3	Deutsche Bank	Nord/LB	Helaba	Commerzbank	Nord/LB	National-Bank
	0.862	1.127	1.457	1.136	1.139	1.020
	Short rate	Long rate	Stoxx 50	DAX 30	EUR-USD	Oil price
Evaluation period: June 2014 to March 2018						
1	Hamburger Sparkasse	National-Bank	DekaBank	Hamburger Sparkasse	Nord/LB	Weberbank
	0.825	0.999	1.083	0.961	1.027	0.904
2	DZ Bank	Commerzbank	Allianz	DekaBank	Allianz	Allianz
	0.830	1.082	1.340	1.062	1.059	0.928
3	Commerzbank	Nord/LB	Commerzbank	DZ Bank	DZ Bank	DZ Bank
	0.837	1.218	1.452	1.084	1.083	0.970

Source: Bloomberg, IW Financial Expert Survey

5 Conclusion

The experts of the IW Financial Expert Survey predict a steeper yield curve with a larger increase in long-term than in short-term interest rates by the end of 2018. Moreover, the average forecasts indicate higher stock market indices, a mild depreciation of the Euro vis-à-vis the US-Dollar, but a larger drop in oil prices by the end of the fourth quarter of 2018. However, despite the expectation of higher interest rates, the short-term interest rate is predicted to remain in negative territory. The 3-month Euribor is, on average, expected to reach -0.31 percent at the end of the fourth quarter of 2018, while the yield on German government bonds with 10-year maturity is expected to reach 0.75 percent by then. Stock markets are, on average, expected to increase by 6.8 percent (Stoxx 50) and 9.4 percent (DAX 30) until the end of the year 2018. During that same period, the experts predict a mild depreciation of the Euro by 0.89 percent vis-à-vis the US Dollar, while oil prices are expected to drop by 9.0 percent.

The expectation of an increase in the long rate and a slight increase in the short rate, together with the expected delayed monetary tightening of the ECB, hint at a financial market outlook characterised by a cautious approach to monetary normalisation. In this cautious approach, the ECB lets the market determine the first increases in long-term interest rates before it stops intervening at the long end of the yield curve, while keeping the short end of the yield curve lower. This cautious approach to monetary policy normalization is reflected in the projection of the yield curve. Moreover, the experts expect that the development of the Euro and the development of oil prices as well as the development of the stock market will support the ECB's cautious approach to monetary normalization instead of forcing a faster exit from low interest rates.

Each quarter we ask the participants alternating questions on current topics. At this time, we were interested in their opinion on the proposed Euro area reforms. The majority of the surveyed experts is of the opinion that a European monetary fund is needed in the Euro area. Moreover, a majority of the same size thinks that macroprudential policies are worthwhile for stabilizing the Euro area. In addition to that, the same majority sees the need for insolvency procedures for states. A small number of experts only sees a European finance minister and the introduction of sovereign-bond-backed securities as worthwhile. These proposals have the highest number of experts who think of them as counter-productive.

The evaluation of the forecasting performance of the latest forecasts yielded the result that Deutsche Bank performed best in predicting trends in the long-term ranking, which covers all forecasts from March 2015 to March 2018. The experts of Deutsche Bank also performed best in the short-term ranking, which covers the surveys from December 2017 and March 2018 for the 3-months ahead prediction and the survey for December 2017 for the 6-month forecasts. When it comes to point prediction, in the long-term evaluation of the period running from March 2015 to March 2018, the experts of National-Bank performed best in predicting all indicators, while the Commerzbank experts produced the most precise point forecasts for all indicators for the short-term evaluation period.

6 Appendix: Individual Forecasts

Table 6-1: Individual forecasts: short-term interest rate

In percent

Forecaster	September 30 2018	December 30 2018
Allianz	-0.30	-0.30
Bayerische Landesbank	-0.33	-0.33
Commerzbank	-0.30	-0.30
DekaBank	-0.32	-0.30
Deutsche Bank	-0.35	-0.35
DZ Bank	-0.35	-0.30
Hamburger Sparkasse	-0.32	-0.32
Helaba	-0.30	-0.30
LBBW	-0.30	-0.30
National-Bank	-0.32	-0.31
Nord/LB	-0.32	-0.31
Postbank	-0.30	-0.30
Santander Bank	-0.32	-0.30
UniCredit	-0.40	-0.40
Weberbank	-0.20	-0.20

Source: IW Financial Expert Survey

Table 6-2: Individual forecasts: long-term interest rate

In percent

Forecaster	September 30 2018	December 30 2018
Allianz	0.70	0.90
Bayerische Landesbank	0.60	0.90
Commerzbank	0.50	0.60
DekaBank	0.55	0.70
Deutsche Bank	0.50	1.25
DZ Bank	0.45	0.60
Hamburger Sparkasse	0.55	0.75
Helaba	0.50	0.80
LBBW	0.60	0.60
National-Bank	0.40	0.50
Nord/LB	0.50	0.70
Postbank	0.50	0.80
Santander Bank	0.50	0.70
UniCredit	0.45	0.60
Weberbank	0.60	0.80

Source: IW Financial Expert Survey

Table 6-3: Individual forecasts: Stoxx 50 Index

In index points

Forecaster	September 30 2018	December 30 2018
Allianz	3,050	3,150
Bayerische Landesbank	3,040	3,190
Commerzbank	3,000	3,200
DekaBank	2,850	3,000
Deutsche Bank		
DZ Bank	3,150	3,350
Hamburger Sparkasse	3,200	3,300
Helaba	2,800	2,950
LBBW		
National-Bank	3,630	3,750
Nord/LB	3,100	3,200
Postbank	3,000	3,100
Santander Bank	3,150	3,300
UniCredit	3,150	3,250
Weberbank	3,150	3,400

Source: IW Financial Expert Survey

Table 6-4: Individual forecasts: DAX 30 Index

In index points

Forecaster	September 30 2018	December 30 2018
Allianz	12,400	12,800
Bayerische Landesbank	12,400	13,000
Commerzbank	12,000	13,500
DekaBank	12,900	13,500
Deutsche Bank	11,400	14,000
DZ Bank	13,000	13,700
Hamburger Sparkasse	13,100	13,600
Helaba	11,500	12,300
LBBW	13,250	14,000
National-Bank	13,400	13,900
Nord/LB	12,600	13,100
Postbank	12,250	12,750
Santander Bank	13,000	13,700
UniCredit	13,000	14,500
Weberbank	13,000	13,500

Source: IW Financial Expert Survey

Table 6-5: Individual forecasts: EUR-USD exchange rate

In US Dollars per 1 Euro

Forecaster	September 30 2018	December 30 2018
Allianz	1.14	1.10
Bayerische Landesbank	1.15	1.15
Commerzbank	1.16	1.16
DekaBank	1.18	1.20
Deutsche Bank	1,24	1.20
DZ Bank	1.15	1.12
Hamburger Sparkasse	1.15	1.13
Helaba	1.15	1.15
LBBW	1.14	1.12
National-Bank	1.17	1.16
Nord/LB	1.18	1.18
Postbank	1.18	1.20
Santander Bank	1.15	1.15
UniCredit	1.19	1.20
Weberbank	1.17	1.15

Source: IW Financial Expert Survey

Table 6-6: Individual forecasts: oil prices

Brent, in US Dollars per barrel

Forecaster	September 30 2018	December 30 2018
Allianz	75	76
Bayerische Landesbank	65	65
Commerzbank	70	65
DekaBank	67	64
Deutsche Bank	67	65
DZ Bank	70	67
Hamburger Sparkasse	75	72
Helaba	70	72
LBBW	75	75
National-Bank	78	77
Nord/LB	77	77
Postbank	75	70
Santander Bank	75	75
UniCredit	78	74
Weberbank	75	75

Source: IW Financial Expert Survey

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